

Before The
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

STATUTORY REVIEW OF THE SYSTEM
FOR REGULATING RATES AND CLASSES
FOR MARKET DOMINANT PRODUCTS

Docket No. R2017-3

COMMENTS OF THE NATIONAL POSTAL MAIL HANDLERS UNION

The National Postal Mail Handlers Union (NPMHU) submits these comments to address the Commission's December 20, 2016 Advance Notice of Proposed Rulemaking on the Statutory Review of the System for Regulating Rates and Classes for Market Dominant Products. At this initial stage of these proceedings, the Commission will determine whether the current ratemaking system is allowing the U.S. Postal Service to satisfy the various objectives for ratemaking that Congress has set forth in 39 U.S.C. § 3622(b).

1. The NPMHU serves as the exclusive bargaining representative for 45,000 mail handlers employed by the Postal Service. These employees and the NPMHU will be directly affected by the Commission's statutory review of the USPS ratemaking system, both as employees of the Postal Service (or their representative) and as users of the American postal system.

2. Section 3622(d)(3) of the Postal Accountability and Enhancement Act of 2006 (PAEA), 39 U.S.C. § 3622(d)(3), requires the Commission, ten years after enactment of the PAEA on December 20, 2006, to review “the system for regulating rates and classes for market-dominant products established” under the PAEA “to determine if the system is achieving the objectives” set forth in Section 3622(b), taking into account the factors in Section 3622(c). As noted in the Commission’s Order No. 3673, dated December 20, 2016, if the Commission determines, after notice and opportunity for public comment, that the current ratemaking system is not achieving the statutory objectives, taking into account the governing factors, the Commission by regulation may adopt modifications or alternatives to the system for regulating rates.

3. It is undisputed that the Postal Service has been and continues to be an absolutely crucial component of the United States economy, especially with regard to commerce and communications. In the EMA Foundation’s most recent report measuring the economic scope and impact of the mailing industry on the overall American economy, for example, the entire industry relying on the Postal Service during 2014 “employed almost seven and a half million individuals,” generating more than “\$1.4 trillion in gross revenues” for participating firms and industries. See EMA Foundation’s US Mailing Industry Jobs and Revenue Study 2015 at 2-3. And the Postal Service itself accounts for only 8% of total industry employment, meaning that more than 90% of mail-related jobs reside in the private sector. The Postal Service has attained this essential role in the American economy, moreover, while remaining one of the most trusted institutions in America, and while operating without any significant taxpayer contributions.

4. Notwithstanding this central role played by the American postal industry, the financial stability of the Postal Service is less than secure. If no postal reform legislation is adopted by the current 115th Congress, as the Commission is required to assume for purposes of this 10-year review of the PAEA's existing ratemaking system, the current state of Postal Service finances presents ominous signs about the Service's financial sustainability. Indeed, the current financial vulnerabilities of the Postal Service should be easy to determine, for the subject has been addressed by many prior reports, including most recently the Commission's own Section 701 Report: Analysis of the Postal Accountability and Enhancement Act of 2006. In that report, the Commission concluded that the Postal Service "is not currently generating sufficient funds to cover mandated [that is, legislated] expenses or invest in critically deferred capital needs." Id. at 4. See id. at 1 (noting "a growing liability for retiree health benefits; an inability to borrow for needed capital investments, such as new delivery vehicles and package sortation equipment; and the continued loss of high margin First-Class Mail revenues").

5. Recent testimony from the U.S. General Accountability Office (GAO) before the House Committee on Oversight and Government Reform confirmed that the financial condition of the Postal Service is "unsustainable," based largely on declining volumes in profitable First Class Mail and large unfunded liabilities for outstanding debt (\$15 billion), retiree health benefits (\$52.1 billion), retirement programs (\$21.3 billion), and workers' compensation liabilities (\$20 billion). See GAO Report: U.S. Postal Service, Key Considerations for Restoring Fiscal Sustainability (February 7, 2017) at 15 (Appendix I).

6. This recent GAO Report also cited "growing expenses" as a component of

the Postal Service's long-term financial difficulties, noting in particular that "salary increases and work hours" continue to grow. This aspect of the GAO Report is not supported by the evidence, however, especially over the past five to ten years. Most notably, during the past ten years, there has been a substantial reduction in the number of USPS employees, and in recent years, there also has been a noticeable reduction in the average cost of labor. To use just one example, during 2007, the Postal Service employed more than 57,000 mail handlers represented by the NPMHU, whereas today that number is below 45,000, for a reduction of more than 21%. Also, the National Payroll Hours Summary for February 2017 shows a consolidated hourly rate for all mail handler wages and benefits of \$37.31, which is 2.5% lower when compared to the same hourly rate of \$38.21 incurred in February 2013 when the terms of the 2011 National Agreement between the NPMHU and the Postal Service were first determined. Thus, a 21% reduction in the number of mail handlers over the past decade has been accompanied during the past four years by an actual reduction in the average hourly cost of wages and benefits for NPMHU-represented employees. This reduction in the number of mail handlers and their personnel costs, in both nominal and real terms and notwithstanding small wage increases bargained over the last few years, will continue over the most recently negotiated 2016 National Agreement. That is why, from an operational point of view that does not take into account legislative mandates, in recent years the Postal Service has been able to create both stable rates for the mailing public and annual surpluses, separate and apart from the long-term financial liabilities noted above.

7. Notwithstanding the operational surpluses achieved by the Postal Service in the past few years, if the current ratemaking system is not changed, the Postal Service will continue to face massive financial liabilities, long-term debts, and the prospect of routine annual deficits, which together will inevitably lead to unsustainable financial difficulties for the Postal Service and the entire American postal industry. In these circumstances, the NPMHU submits that the Commission is compelled to conclude that the existing ratemaking system fails to meet several key objectives set forth in 39 U.S.C. §3622(b), including most notably the need “[t]o assure adequate revenues, including retained earnings, to maintain [the] financial stability” of the Postal Service over the coming years.

8. Based on the inescapable conclusion that the current ratemaking system needs to be modified, the NPMHU urges the Commission to propose and eventually adopt regulatory changes that will accomplish the following:

A. Eliminate or substantially revise the current price cap so that the Postal Service is able to increase rates on market-dominant products in the amount necessary to pay its annual expenses, to pay off its \$15 billion debt, to invest in needed capital expenditures, and to reduce its long-term liabilities over an actuarially sound period of time. To accompany this change in the price cap, the Commission should adopt an annual system to monitor and evaluate the Postal Service’s periodic rate changes; and

B. Either eliminate or revise the system for allowing expedited rate increases for extraordinary or exceptional circumstances to provide greater flexibility to the Postal Service when it needs to react to extraordinary or exceptional circumstances that adversely affect the Postal Service’s financial stability.

9. The NPMHU reserves its right to file additional comments and materials if and when the Commission proposes, by regulation, modifications to the current ratemaking system.

Respectfully submitted,

/s/

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